Drop-In Article

Renewal Communities

Tax incentives are available for eligible businesses and investments within designated distressed communities across the Nation. The Community Renewal Tax Relief Act of 2000 was passed in order to stimulate the economy within the urban and rural areas by attracting new businesses and investments to distressed communities while stimulating existing businesses and investments. The areas eligible for these incentives are designated by the Department of Housing and Urban Development (HUD) from nominations submitted by State and local governments. 40 Renewal Communities across the country are eligible for these tax incentives.

You must be considered a "renewal community business" to be eligible for most of the tax incentives. This means that you actively conduct a "qualified business" within a designated renewal community where at least 50% of your total gross income comes from your "qualified business"; at least 35% of your employees live in the renewal community and a substantial portion of their services are performed in the renewal community.

CAUTION: The tax laws authorizing these incentives are very complex. It is highly recommended that you consult with a qualified tax professional in order to determine whether you are eligible for these benefits. Certain limitations may also apply in order for you to fully utilize these tax incentives.

Beginning January 1, 2002, and ending December 31, 2009, the tax incentives generally available are:

Additional section 179 expensing: Section 179 of the Internal Revenue Code allows you to choose to deduct all or part of the cost of qualifying property in the first year you use it in your business, instead of depreciating it over a number of years. There is a dollar limit on how much you can deduct. Certain phase out rules and special rules apply. Property that is substantially renovated also has unique rules.

Zero-percent capital gain rate: You are eligible for a zero-percent capital gains rate on sales or exchanges of qualified community assets acquired after December 31, 2001 and before January 1, 2010 and held for more than five years. "Qualified community assets" include qualified community corporate stock, community partnership interests and community business property that is purchased or substantially improved after December 31, 2001. Your qualified community assets must be in a "renewal community business" as defined earlier.

Commercial revitalization deduction: “Commercial revitalization expenditures” include the cost of the building or costs to substantially rehabilitate an existing building subject to certain limitations. Each state is permitted to allocate up to $12 million of “commercial revitalization expenditures” to each renewal community located within the state. Once you receive your share of the allocated “commercial revitalization expenditures” from your state, you can choose one of two ways to reflect this on your return. You can deduct one half of the commercial revitalization expenditures in the first year or you can amortize 100% of the expenditures over 120 months. You will not be able to claim depreciation for these amounts and in total you cannot claim more than $10 million of these expenses for any one building. The building must be located within the renewal community and used for commercial purposes. You must also submit a qualified allocation plan to an appropriate State agency.

Renewal Community Employment Credit: Any business within the Renewal Community is eligible for this credit and does not have to meet the definition of “renewal community business” as discussed earlier. As an employer, you are eligible for a credit of 15% of the first $10,000 of qualified wages paid to each qualified employee of your trade or business; the employees must live and work within the Renewal Community. There is a $1,500 limit per qualified employee and they must be full-time or part-time employees employed for at least 90 calendar days. You cannot claim the credit for employees who own more than 5% of the employer stock or for certain relatives and dependents. Also certain business activities described by the Internal Revenue Code or certain farming activities preclude the use of this credit. Your deduction for wages will have to be reduced by the amount of the credit you claim.

For more information on these and other incentives for which you may be eligible please contact the Internal Revenue Service at www.irs.gov or discuss them with your Professional Tax Preparer.